



## Philadelphia Home Ownership Center

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U.S. Department of Housing and Urban Development

The Wanamaker Building  
100 Penn Square East  
Philadelphia, PA 19107-3389

June 14, 2000

### **CIRCULAR LETTER PH 00-05**

**TO:** All Approved Mortgagees Doing Business in Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, and West Virginia

**FROM:** Engram A. Lloyd, Director, Home Ownership Center

**SUBJECT:** Case Numbers for Mortgages on REO Properties

When mortgagees request a case number for either a current REO property or a former REO property, they receive a "Duplicate Address" message, and the case appears in Holds Tracking. In the past, these case numbers were released more or less automatically. In recent months however, we have been receiving an increasing number of complaints about various practices involving REO properties.

In some cases an REO property purchased directly from HUD on an uninsured, all cash basis, is resold to a new purchaser within a short period of time, usually at a substantially higher price, and often without repairs. In other cases a sales contract with a new purchaser is executed, again usually at a higher price, and an application for FHA-insured financing is submitted before title has passed from HUD to the investor.

It is not HUD's intention to bar legitimate real estate investors from acquiring, repairing, and selling properties acquired from HUD. However, we do not want borrowers obtaining FHA-insured mortgages to purchase REO properties which do not meet our Minimum Property Requirements (MPR), and/or obtaining FHA-insured mortgages based on inflated values. Accordingly, the procedures outlined below are being implemented effective the date of this Circular Letter.

## Former REO Properties

REO properties are listed for sale under one of three sales approaches based on the condition of the property: Insured (the property meets MPR without repairs), Insured With Escrow (repairs not exceeding \$5,000 are needed to meet MPR), and Uninsured (repairs exceeding \$5,000 are needed to meet MPR). HUD is especially concerned with situations where an REO property was sold by HUD in an Uninsured condition, and FHA-insured financing under Section 203(b) is proposed within a short period of time.

- Where more than twelve months have passed since the REO property was sold by HUD, the case number will automatically be released from Holds Tracking by HUD staff. No additional action on the part of the mortgagee is required.
- Where the sale of the REO property took place within the last twelve months, mortgagees will see a message in Holds Tracking directing them to submit the following documents:
  - a) a copy of the HUD-1 from the REO transaction.
  - b) a copy of the new sales contract.
  - c) a copy of the new appraisal and VC sheet (the appraisal must be completed even though a case number has not yet been issued).
  - d) a copy of the FHA Connection Case Number assignment screen.

HUD will evaluate these documents and, once any questions we may have are resolved, will release the new case number. For properties located in Delaware, District of Columbia, Maryland, Michigan, Pennsylvania, Virginia and West Virginia, these documents should be faxed to (215) 656-3434. For properties located in Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Ohio, Rhode Island and Vermont, these documents should be faxed to (215) 656-3438.

Mortgagees should allow five business days for HUD's review.

## Current REO Properties

The ADP Code entered when requesting the case number must be consistent with the sales approach under which the REO property was listed for sale. The borrower for whom the case number is being requested must be the purchaser who is buying the REO property from HUD.

NOTE: Mortgagees must ensure that the REO Sales Contract (Form HUD-9548) is executed by the appropriate management and marketing contractor. If conventional financing or cash are specified on the sales contract, an amended sales contract must be fully executed before an application for FHA-Insured financing may be processed.

Where both the ADP code and the borrower are consistent with the terms of the REO sale, the case number will automatically be released from Holds Tracking by HUD staff. No additional action on the part of the mortgagee is required. Where the ADP code and/or the borrower is not consistent with the terms of the REO sale, the following procedures will apply:

- Uninsurable Property. Where a property was offered for sale Uninsured, and Section 203(b) financing is being requested, mortgagees will receive a message advising them to submit a copy of the REO sales contract executed by the appropriate management and marketing contractor. Where the executed sales contract specifies Insured or Insured with Escrow financing, HUD will release the case number. Where the sales contract does not specify Insured or Insured with Escrow financing, the case number will not be released until an amended sales contract is submitted.

For properties located in Delaware, District of Columbia, Maryland, Michigan, Pennsylvania, Virginia and West Virginia, the sales contract should be faxed to (215) 656-3434. For properties located in Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Ohio, Rhode Island and Vermont, the sales contract should be faxed to (215) 656-3438.

Mortgagees should allow five business days for HUD's review.

- Purchaser/Borrower Mismatch. HUD will release a case number only for the purchaser who has executed the REO sales contract. In instances where an investor executes a sales contract with a new buyer prior to closing on the sale with HUD, the new buyer will not be able to obtain FHA-insured financing. After title has passed from HUD to the investor, the new buyer may apply for FHA-insured financing. The procedures outlined above for former REO properties will then apply.

We appreciate your cooperation in complying with these policies. If you have any questions or comments, please direct them to [Gerry\\_Glavey@hud.gov](mailto:Gerry_Glavey@hud.gov).

cc: 3AHH Lloyd/Laroche  
3AHR Spina  
3AHHPT Glavey  
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3AHP2 Caulfield  
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